

Message Text

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ACTION EA-14

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 7425

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SUBJ: NEW ZEALAND FUEL SUPPLY SITUATION

REF: A. WELLINGTON 3161

B. WELLINGTON A-97 MAY 22, 1973

1. SUMMARY: OIL COMPANIES URGING GOVERNMENT TO TAKE EARLY MEASURES TO CONSERVE DWINDLING OIL SUPPLIES. ALTHOUGH NZ PRODUCES NO OIL (EXCEPT FOR LIMITED QUANTITIES OF CONDENSATE) GNZ HAS NOT YET GONE BEYOND VOLUNTARY MEASURES ANNOUNCED REFTEL. GNZ SAYS IF ANY GASOLINE RATIONING, IT WOULD NOT BE UNTIL AFTER HOLIDAYS; END OF JAN OR EARLY FEB. SOME SHORT TERM STEPS BEING TAKEN AND LONGER TERM CONTINGENCY PLANS BEING DEVELOPED INCLUDING SWITCHING FROM OIL TO OTHER FORMS OF ENERGY, ESPECIALLY COAL WHICH IS AVAILABLE IN NZ. BEHIND THE SCENE THERE IS BEGINNING SOME GNZ CONCERN WITH FUTURE. IN MEANTIME GNZ BLANDLY ANNOUNCES THAT WITH STOCKS IN HAND AND SUPPLIES ENROUTE AND

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VOLUNTARY ECONOMIES NEW ZEALANDERS SHOULD BE ABLE TO

TAKE THEIR SUMMER HOLIDAY TRIPS AS PLANNED. SOME HOPES FOR AVOIDING DRASTIC ACTION PEGGED ON PETROLEUM DEAL WITH IRAN AND INDONESIA. END SUMMARY.

2. OTHER THAN THE 50 MPH SPEED LIMIT, THERE IS RELATIVELY LITTLE OUTWARD EVIDENCE YET OF AN OIL SHORTAGE, THOUGH MANUFACTURING AND TRANSPORT INDUSTRIES ARE TAKING DEVELOPING SITUATION MORE SERIOUSLY. SHIP BUNKERING IS BY AND LARGE BEING RESTRICTED TO REGULAR (CONTRACT) USERS, GENERALLY ONLY SUFFICIENT TO REACH NEXT PORT OF CALL. MANUFACTURING AND OTHER PETROLEUM FUEL CONSUMING FIRMS ARE EXPLORING WAYS OF CONVERTING TO COAL OR NATURAL GAS. (THOUGH NZ LARGE CONSUMER OF FERTILIZERS, MOST IS PHOSPHATE TYPE, LITTLE NITROGENOUS, AND, EMBASSY UNDERSTANDS, NONE OF THIS IS MANUFACTURED IN NZ).

3. THOUGH OUTWARDLY STILL CALM ABOUT SITUATION, THERE ARE SIGNS SOME GNZ OFFICIALS BEGINNING TO GRASP PENDING CRISIS. AN INTERDEPARTMENTAL COMMITTEE HAS BEEN CONVENED BY DEPARTMENT OF ENERGY RESOURCES WHICH INCLUDE THE DEPARTMENTS OF TREASURY, TRADE AND INDUSTRY, TRANSPORT, MINES AND ELECTRICITY. A GNZ LIAISON COMMITTEE MEETING WEEKLY WITH OIL COMPANY REPRESENTATIVES.

4. COMBINED WITH APPARENT GNZ (FROM PRIME MINISTER ON DOWN) RELUCTANCE TO TAKE DRASTIC CONSERVATION MEASURES AT START OF SUMMER VACATION PERIOD, THERE IS STILL A GENERAL UNDERLYING SPIRIT OF "IT WILL COME OUT ALL RIGHT".

5. OIL COMPANY REPRESENTATIVES IN NEW ZEALAND HAVE BEEN STRESSING IN THEIR MEETINGS WITH GNZ OFFICIALS AND LEADERS (INCLUDING PRIME MINISTER) THE SERIOUSNESS OF DELAY IN STEPS TO HARBOR DIMINISHING SUPPLIES. THE REPRESENTATIVES HAVE ALSO BEEN TRYING TO EXPLAIN THE MECHANISMS OF OIL SUPPLY SYSTEM AND FACTORS LEADING TO A 15 TO 17 PERCENT CUT IN NZ SUPPLIES. THIS HAS MET WITH CONSIDERABLE SCEPTICISM IN GNZ CIRCLES AND FEELING THAT OIL COMPANIES ARE MORE RESPONSIBLE FOR NZ'S REDUCED SUPPLIES THAN IS THE ACTION OF PRINCIPAL OIL SUPPLYING COUNTRIES. THERE PERSISTS A FEELING OF "WE HAVEN'T LIMITED OFFICIAL USE

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TAKEN SIDES IN THIS ARAB-ISRAELI DISPUTE, NO ARAB COUNTRY HAS PUT US ON UNFRIENDLY LIST. SO WHO IS CUTTING OUR SUPPLY?"

6. THERE IS ALSO A DIMINISHING HOPE THAT AN OIL FOR SHEEPMEAT DEAL MAY BE WORKED OUT WITH IRAN, BUT RECENT IRANIAN PRICE INCREASES FOR CRUDE HAVE SOMEWHAT DAMPENED THIS HOPE. LOCAL CIRCLES TAKE PERHAPS SOME-

WHAT NAIVELY AS A BRIGHT SIGN, HOWEVER, IRAN'S RECENT ANNOUNCEMENT THAT IT IS ACCREDITING ITS AMBASSADOR IN AUSTRALIA TO NEW ZEALAND.

7. AS A PART OF THE PRIME MINISTER'S CURRENT TRIP TO SEVERAL ASIAN COUNTRIES HE WILL DISCUSS WITH INDONESIAN LEADERS THE SLIM CHANCES OF GETTING INDONESIAN CRUDE. EVEN IF SOME WERE AVAILABLE, MOST INDONESIAN CRUDE HAS TOO MUCH WAX FOR NZ REFINERY.

PM OFFERING GOI GEOTHERMAL EXPERTS AS QUID PRO QUO.

8. IN TRANSPORT FIELD, STARTING DEC 10 A BUNKER SURCHARGE ON NON-CONTRACT CARGO FROM NEW ZEALAND TO BRITAIN AND EUROPE OF 9.5 PERCENT WAS PUT INTO EFFECT BY THE OVERSEAS SHIPOWNERS COMMITTEE. REASON GIVEN WAS RESTRICTED SUPPLIES OF BUNKER OIL AND INCREASING WORLD PRICES. ON DEC 13, THE COLUMBUS LINE ANNOUNCED AN INCREASE OF 8 PERCENT IN FREIGHT RATES ON CARGO TO THE WEST COAST OF NORTH AMERICA STARTING JAN 30. THIS IS OVER AND ABOVE THE 5.86 PER CENT CURRENCY SURCHARGE ALREADY IN EFFECT. FURTHER INCREASES CAN BE EXPECTED AS BUNKERING COSTS RISE. A BUNKERING SURCHARGE IS EXPECTED TO APPLY EARLY AFTER THE NEW YEAR.

9. A GENERAL GNZ BUNKER FUEL EMBARGO HAS BEEN DECLARED AND ALL LOADINGS MUST BE APPROVED BY THE GNZ ENERGY RESOURCES COMMISSION. THIS STEP IS UNDOUBTEDLY PROMOTED BY SENSE OF NEED TO GAIN BETTER CENTRALIZED (GNZ) CONTROLS.

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10. OTHER THAN CUT OF ONE WEEKLY AIR NEW ZEALAND (ANZ) FLIGHT TO LOS ANGELES AND SCHEDULE ADJUSTEMENTS AND REDUCED SPEED OF DOMESTIC AIR LINE NAC, AVIAITION PICTURE HASN'T CHANGED SIGNIFICANTLY. CIVIL AVAIAION AUTHORITIES (CAA) HAVE JUST ANNOUNCED THE ESTABLISHMENT OF CENTRALIZED CONTROL OF AVIATION FUEL HAVING JURISDICTION OVER WHOLESALERS, RETAILERS AND USERS. PRIVATE EXECUTIVE AIR TRAVEL WILL BE SEVERELY CURTAILED AND AERO CLUBS WILL SUFFER SUBSTANTIAL CURTAILMENT. THE SECRETARY OF TRANSPORT WILL BE THE COMPTROLLER. ANZ AND NAC HAVE NOT BEEN RESTRICTED AND PRESUMABLY OTHER INTERNATIONAL CARRIERS WILL CONUE TO RECEIVE NEEDED FUEL. ACCORDING TO CAA OIL COMPANIES HAD NOT INCREASED THEIR SUPPLIES OF AVIATION FUEL IN ANTICIPATION FOR COMMONWEALTH GAMES STARTING JANUARY 24 IN CHRISTCHURCH. IN LIGHT OF WORLD SHORTAGES THIS IS NOW GREAT CONCERN CAA.

11. TO CONSERVE FUEL CAA TALKING TO AMERICAN
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AIRLINES ABOUT POSSIBILITY MAKING AUCKLAND/CHRISTCHURCH FLIGHTS DURING LAY-OVER AUCKLAND BECAUSE LARGER CAPACITY AA AIRCRAFT AND MORE EFFICIENT USE OF FUEL THAN NAC'S 737'S. SEE SEPTTEL.

12. ANZ AND CAA INCREASINGLY CONCERNED THAT FURTHER REQUIRED CUT BACKS IN US-NZ SERVICE COULD CAUSE SERIOUS FINANCIAL LOSSES ANZ. A NEW DC-10 SHOULD BE STARTING ANZ SERVICE ON AUCKLAND -LOS ANGELES RUN IN JANUARY.

13. DISCUSSIONS WITHIN CAA AND ANZ, IF FURTHER CUTS NECESSARY, ON POSSIBILITY APPROACHING PAA RE ARRANGEMENT FOR JOINT OPERATION USING ANZ DC-10'S ON US-NZ FLIGHTS

14. ON OIL SUPPLY SIDE SITUATION FAR FROM BRIGHT.
AT PRESENT SEVENTY-THREE PERCENT OF REFINED PETROLEUM

PRODUCTS CONSUMED IN NZ COME FROM WHAGAREI REFINERY AT MARSDEN POINT. REST IS IMPORTED AND OF THIS 70 PERCENT COMES FROM AUSTRALIA. OVER 90 PERCENT OF CRUDE PETROLEUM IMPORTS USED FOR FEEDSTOCKS OF WHANGAREI REFINERY COME FROM MIDDLE-EAST. KUWAIT IS SINGLE LARGEST SUPPLIER AND ITS SHARE HAS BEEN GROWING RAPIDLY, ABOUT ONE-THIRD IN 1971, ONE-HALF IN 1972 AND ESTIMATES ARE THAT THIS HAS CLIMBED TO ABOUT TWO-THIRDS IN 1973. MOST OF REMAINDER MID EAST OIL COMES FROM IRAN. IN EA AREA NZ OBTAINS 6 PERCENT ITS CRUDE FROM BRUNEI. AUSTRALIA'S REFINED PETROLEUM EXPORTS TO NZ ARE MADE UP PRINCIPALLY OF JET FUEL AND AVIATION GASOLINE (ABOUT 90 PERCENT OF NEW ZEALAND'S CONSUMPTION). THESE ARE REFINED FROM DOMESTIC AUSTRALIAN CRUDE, HEAVIER PETROLEUM PRODUCTS IMPORTED FROM AUSTRALIA ARE REFINED FROM CRUDES IMPORTED INTO AUSTRALIA.

15. ABOUT FORTY-FIVE PERCENT OF WHANGAREI REFINERY OUTPUT HAS BEEN AUTOMOBILE GASOLINE, NEARLY ONE QUARTER IS FUEL OIL, ABOUT 20 PERCENT DIESEL, AND A SMALL QUANTITY OF LIGHT BUNKER FUEL.

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16. OIL SUPPLY COMPANIES HAVE ALERTED GNZ OF AN AVERAGE REDUCTION OF 15 TO 17 PERCENT IN SUPPLIES. THOUGH THESE REDUCTIONS ARE BASED ON RECENT CUT BACKS IN LOADINGS OF MIDDLE EAST CRUDE, EACH OIL COMPANY HAS CALCULATED ITS REDUCTIONS FOR NEW ZEALAND BASED ON DIFFERENT CRITERIA. THEREFORE, AMOUNTS OF REDUCTIONS VARY. MOBIL, FOR EXAMPLE BASED ITS REDUCTIONS ON THE LOADINGS OF FIRST NINE MONTHS OF 1973. UNFORTUNATELY, MOBIL HAD LARGE LOADINGS FOR NEW ZEALAND IN DECEMBER 1972 SO 1973 LOADINGS WERE DOWN AND MOBIL'S REDUCTION IS LARGER. HOWEVER, OTHER COMPANIES' CALCULATIONS BRING THEIR REDUCTIONS TO CONSIDERABLY LESS.)

17. COMPANIES HAVE ALSO WARNED OF LIKELY OTHER CUT BACKS. FOR EXAMPLE AUSTRALIA HAS NOTIFIED CAA FO A LIKELY 10 PER CENT REDUCTION IN SUPPLY OF JET FUEL IN FEBRUARY.

18. OIL COMPANIES HAVE PENDING WITH GNZ A LONG STANDING REQUEST FOR PRICE INCREASES BASED ON COST INCREASES UP TO OCT 1972. THEY HAVE NOTIFIED GNZ THAT THERE HAVE BEEN SIGNIFICANT INCREASES IN COST OF PETROLEUM SINCE THEN AND A SIGNIFICANT PRICE INCREASE MUST BE AUTHORIZED SOON. GNZ UNLIKELY RAISE PRICES UNTIL ABOUT JAN 15.

19. OIL COMPANY REPRESENTATIVES HAVE ALSO URGED

GNZ TO ESTABLISH PRIORITIES ON DIFFERENT PETROLEUM
BASED FUEL NEEDS. ACCORDING TO REPORTS GNZ INTENDS
TO REQUEST SWITCH SUPPLIES TO MORE DIESEL FUEL AND
OIL FUEL. SECRETARY FOREIGN AFFAIRS CORNER TOLD ME
17 DEC THERE LIKELY BE SOME INCREASE NAPTHA IMPORTS WHICH WOULD HELP.

20. GNZ DEPARTMENT OF ENERGY RESOURCES HAS MADE FOLLOWING
BREAKDOWN OF NORMAL FUEL AND ENERGY RESOURCE USE IN NEW ZELAND.

64.8 PERCENT FOR TRANSPORTATION AND HEATING
9.95 PERCENT FOR SHIPPING
4.94 PERCENT FOR AIRCRAFT
16.6 PERCENT FOR INDUSTRIAL BOILER FUEL
2.6 PERCENT OIL POWER STATIONS
1.1 PERCENT OTHER.

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21. AT PRESENT NO ON SHORE OR OFF SHORE DRILLING
IS UNDERWAY, THOUGH HUNT INTERNATIONAL PETROLEUM HAS
OFF SHORE RIG UNDER CONSTRUCTION IN SINGAPORE WHICH
NOW EXPECTED ARRIVE NZ APRIL OR MAY 1974. IT WILL
FIRST DRILL FOR SHELL AND MAYBE DO SOME WORK FOR BP

AT ABOUT 40 DEGREES 30MINUTES N, 174 DEGREES E THEN LATER START
WORK IN LARGE HUNT SIGHT OFF SOUTH ISLAND. (HUNT HAS ALREADY
DONE 25,000 SQ. MILE SEISMOLOGICAL SURGEY IN THIS AREA.)

22. EMBASSY NOT AWARE OF ANY PROPOSED DRILLING
BY OTHER US COMPANIES HOLDING NEW ZEALAND ON SHORE OR
OFF SHORE RIGHTS SUCH AS ESSO, MAGELLAN, HOWE OFFSHORE,
SUPERIOR OIL OR REPUBLIC PETROLEUM CORP.

23. EMBASSY HAS HEARD THAT GNZ MAY LICENSE
ADDITIONAL AREAS FOR EXPLORATION IN TARANAKI AREA
AND OFF SOUTH ISLAND IN EARLY 1974.

24. SITUATION ALSO SERIOUS FOR GNZ DEFENSE MINISTRY
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WHOSE AIR FORCE AND NAVY PATROL LARGE AREAS OF PACIFIC
AND IS TRYING MAINTAIN SOME SUPPORT FOR PACIFIC ISLAND COUNTRIES.

25. COMMENT: WHILE NZ IS ON HOLIDAY AND PM OFF
TOURING ASIA ALL TOO LITTLE PLANNING AND ACTION APPARENT.
GIVEN NZ'S LACK AVAILABLE CRUDE OIL,
EXPERTISE AND LIQUID CAPITAL I PREDICT NZ WILL SOON FACE
REALLY SERIOUS SITUATION , ESPECIALLY IN
FOREIGN TRADE, ITS LIFELINE, GIVEN DISTANCES TO
NZ'S PRINCIPAL TRADING PARTNERS.
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